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Reference

- Selling
- Servicing

This announcement amends the guide(s) indicated. Please keep it for reference until we issue a formal change.

Subject **Changes to Our Flood Insurance Requirements**

The National Flood Insurance Reform Act of 1994 (the Flood Act), which amends the National Flood Insurance Program, includes several key provisions that affect mortgage lenders and servicers. Among other things, the statute

- authorizes lenders to require flood insurance even if a property’s improvements are not designated or determined to be in a Special Flood Hazard Area until after the mortgage is originated;
- allows lenders to charge borrowers reasonable fees for determining the applicability of requiring flood insurance coverage (either at the time a mortgage is originated or later following a subsequent remapping of a locality);
- increases the maximum amount of flood insurance coverage that is available under the National Flood Insurance Program;
- increases lenders’ duties related to compliance with the requirements of the National Flood Insurance Program (and imposes civil monetary penalties for the failure to comply); and
- requires the Federal Emergency Management Agency (FEMA) to develop and mandate the use of a standard form to document the flood zone status of a property. (Once FEMA makes this form available, it must be used for all properties that secure mortgages delivered to Fannie Mae.)

Although not all of the provisions imposed by the Flood Act will result to changes in our policy, we expect servicers to nevertheless fully comply with all aspects of the Act. The remainder of this Announcement discusses the specific changes to our mortgage eligibility and loan servicing policies that are required to assure compliance with the Flood Act, as well as other changes that we are

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making to update our requirements. Unless we specify otherwise for a particular change, these changes are effective immediately.

Flood Insurance Requirements Related to Mortgage Deliveries

Part IV, Section 107, of the Selling Guide states that we "require flood insurance for any property located in a Special Flood Hazard Area that has federally mandated flood insurance purchase requirements." It goes on to list the Flood Insurance Rate Map symbols that are used to identify Special Flood Hazard Areas, to explain how the required coverage is calculated, and to discuss the limited circumstances under which flood insurance is not required.

The requirements of Part IV, Section 107, of the Selling Guide that are specifically affected by the provisions of the Flood Act (or that are otherwise being revised) are as follows:

- Special Flood Hazard Areas that now have federally mandated flood insurance purchase requirements include those identified by the following symbols on Flood Insurance Rate Maps -- A, AE, AH, AO, AR, A1-30, A-99, V, VE, V1-30, and VO.

- The Flood Act increased the maximum "per dwelling" coverage available under the National Flood Insurance Program to $250,000 per dwelling (and to $100,000 for contents coverage). Our method of calculating the required coverage has not changed as a result of the Flood Act; however, lenders should make sure that any mortgages they deliver to us have adequate flood insurance coverage based on the new maximum coverage limits.

- The National Flood Insurance Program provides coverage for the buildings, dwellings, structures, or improvements that are situated on a property. We previously specified that we would waive our flood insurance requirements if the property improvements were not in the Special Flood Hazard Area, even though part of the property might be. The location of the principal structure is of most importance in terms of determining whether flood insurance is required. Flood insurance is required if <u>any</u> part of the principal structure is located within a Special Flood Hazard Area. Detached buildings -- such as stand-alone garages, sheds, or greenhouses -- are not considered part of the principal structure, although flood insurance may be required for them if they also serve as part of the security for the mortgage. If the principal structure on a property is not located in a Special Flood Hazard Area, flood insurance generally will not be required even if another detached structure is located within the Special Flood Hazard Area. However, if the detached structure is attached to the land and serves as part of the security for the mortgage, flood insurance will be required for the detached structure (and may be purchased through a separate policy on a general property insurance form). (This is not necessary if the lender determines that the principal structure represents sufficient security for the mortgage and releases the detached dwelling from the security.)

Although we do not require flood insurance for buildings that are not the principal structure (unless they are part of the security for the mortgage), borrowers may want to obtain flood insurance coverage for these buildings. Most standard flood insurance policies cover only specific structures or buildings. In order to protect detached buildings that are not the principal structure from damage against floods, a borrower may need to obtain one flood insurance policy for the principal structure and separate policies for the other detached buildings on the property.

- FEMA designates communities as either “participating” or “non-participating” in the National Flood Insurance Program. Under the National Flood Insurance Program, flood insurance is not available for properties that are located in “non-participating” communities. Previously, we specified that we would not buy mortgages secured by properties located in Special Flood Hazard Areas if the community was not participating in the National Flood Insurance Program, although we waived our flood insurance requirement if the mortgage was closed within one year after the area was classified as a Special Flood Hazard Area. Effective immediately, mortgages secured by properties located in “non-participating” communities cannot be sold to us if the property is located in a Special Flood Hazard Area (regardless of when the property was classified as being in a Special Flood Hazard Area). To assure that such mortgages are not delivered to us for purchase or securitization, lenders must monitor -- on an on-going basis -- changes in a community’s status under the National Flood Insurance Program.

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Part V, Sections 111 and 214, of the Selling Guide require that first mortgages "provide for the monthly deposit of escrow funds to pay as they come due taxes, ground rents, premiums for borrower-purchased mortgages insurance (if applicable), and premiums for hazard insurance." Conditions under which the escrow deposit account may be waived are also discussed. In any instance in which a lender maintains an escrow deposit account for such items, it must also deposit funds for the payment of flood insurance renewal premiums into that account.

Part VIII, Section 702, of the Selling Guide states our requirements for PUD, condominium, and cooperative projects. To reflect recent changes to the National Flood Insurance Program, our requirements related to condominium or cooperative projects that consist of high-rise or other vertical buildings are being modified as follows:

- When a condominium project consists of high-rise or other vertical buildings, we generally do not require separate flood insurance policies for the individual units. Instead, we require the owners' association to obtain a Residential Condominium Building Association Policy for each building that is located in a Special Flood Hazard Area. This policy must provide coverage for all of the common elements and property, as well as for each of the individual units in the building. The amount of required coverage consists of three components -- (1) building coverage should equal 100% of the insurable value of the common elements and property (including machinery and equipment that are part of the building), (2) the contents coverage should equal 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members, and (3) the coverage for each unit should be the lesser of $250,000 or the amount of its replacement cost. (If the total amount of required coverage exceeds the maximum available for condominium projects under the applicable National Flood Insurance Program, we will accept coverage that is equal to the maximum available amount. Note, however, that the 80% coinsurance clause may apply unless the elements, property, and units are insured for at least 80% of their replacement cost. When an owners' association refuses to obtain a Residential Condominium Building Association Policy, a separate policy must be obtained for each dwelling unit that secures a mortgage delivered to us.

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- When a cooperative project consists of high-rise or other vertical buildings, we impose no special coverage requirements. For all cooperative projects that have buildings located in a Special Flood Hazard Area, we require the cooperative corporation to obtain a separate flood insurance policy for each building that is located in the Special Flood Hazard Area. The policy must cover the building and any common elements and property (including machinery and equipment) that are owned in common by the shareholders of the cooperative project. (We do not require flood insurance coverage for the individual units.) The amount of coverage should be at least equal to the lesser of the insurable value of the building (including all common elements and property) or the maximum coverage available under the applicable National Flood Insurance Program. Note, however, that the 80% coinsurance clause may apply unless the buildings, elements, and property are insured for at least 80% of their replacement cost.)

Although we require that properties within Special Flood Hazard Areas have adequate flood insurance when the mortgage is originated and that the coverage be maintained as long as the mortgage is in force, we do not specify how lenders accomplish this. There is in the marketplace a type of service called “life-of-loan” coverage or “life-of-loan” monitoring. However, “life-of-loan” is largely a vendor-initiated term that has both broad meaning and inconsistent usage throughout the industry. It does not mean that the monitoring company guarantees that the properties being monitored have flood insurance policies in effect, rather it only means that it will notify the lender if flood insurance is required for a monitored property. A lender is not precluded from selecting a “life-of-loan” monitoring service; however, if a lender selects this type of monitoring, it should assure itself that it has a clear understanding of whether this arrangement will satisfy its on-going compliance obligations.

Identification of Flood Zone/Insurance Status for Mortgage Deliveries

In order to assist lenders in identifying mortgages that they need to track to assure that they are complying with the provisions of the Flood Act -- and to enable us to better monitor lenders’ compliance-- we are implementing a new requirement for lenders to identify mortgage deliveries by coding them with a unique Special Feature Code. The Special Feature Code will indicate not only whether the principal structure is in a Special Flood Hazard Area, but also

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whether the property improvements are covered by flood insurance. Effective with mortgages delivered on or after September 1, 1995, lenders must provide the applicable Special Feature Code to identify the flood zone and insurance status for every mortgage they deliver to us. Mortgages delivered on or after September 1, 1995, will be returned to the lender (and not purchased) if they do not include a Special Feature Code identifying whether they are located in a Special Flood Hazard Area and indicating the status of their flood insurance coverage.

The following Special Feature Codes should be reported, as appropriate, on the Loan Schedule (Form 1068 or 1069) or the Schedule or Mortgages (Form 2005) -- or in an electronic version of these forms:

- Use Special Feature Code 170 to indicate that the principal structure is located in a Special Flood Hazard Area and is covered by flood insurance;

- Use Special Feature Code 175 to indicate that the principal structure is not located in a Special Flood Hazard Area, but is covered by flood insurance; and

- Use Special Feature Code 180 to indicate that the principal structure is not located in a Special Flood Hazard Area, and is not covered by flood insurance.

Note: A Special Feature Code has not been provided to indicate that the principal structure is located in a Special Flood Hazard Area, but is not covered by flood insurance since such properties are not eligible for delivery to us.

Use of Flood Zone Determination Firms

Lenders may choose to make flood zone determinations themselves or to rely on flood zone determinations that are made by appraisers or third party firms. The Flood Act recognizes that the use of third party firms to perform flood zone determinations and related activities can be a critical component in the mortgage lending process; however, it does place additional burdens on these firms by requiring them to guarantee the accuracy of any determination they make. Because we expect lenders that use outside vendors to exercise care and sound judgment when they select and contract with third-party flood zone determination firms, we are offering the following guidance related to the selection of these firms:

- A lender should select a company that appears on the list of flood zone determination vendors that FEMA makes available. (Lenders should note, however, that the presence of a company on this list does not mean that use of the company has been “approved” or “sanctioned” by FEMA.)

- A lender should be come familiar with the various methods that flood zone determination companies use in making flood zone determinations. Firms that not only use the FEMA maps, but also map directly to the property -- by using alternative sources (such as tax maps) as cross references, or using site inspections and surveys when they are needed -- are the most reliable. The use of “probability” or other approximation techniques is not adequate; therefore, lenders should not use the services of firms that rely solely on these methods.

- A lender should ask for, and review, the financial statements of any flood zone determination firm it is considering using to verify that the firm has the financial capacity to support the guarantee of the accuracy of its work that is required under the Flood Act.

- A lender that is considering a “life-of-loan” monitoring service should request the flood zone determination company it selects to agree to continue monitoring for all of the covered properties in the event that the servicing of mortgages secured by the covered properties is transferred to a new servicer.

- A lender should make sure that any contract it enters into with a flood zone determination firm includes clear procedures for resolving disputes related to difficult determinations, sets out the firm’s responsibility for guaranteeing its compliance with the Flood Act, and addresses which party will be responsible for any penalty incurred for non-compliance with the Flood Act.

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Flood Insurance Requirements Related to Mortgage Servicing

A servicer's obligation to maintain flood insurance coverage for all properties in Special Flood Hazard Areas extends beyond the requirement to obtain flood insurance in connection with the origination of mortgages to take into account a requirement to obtain coverage in connection with any remapping of flood zones that may subsequently occur. Previously, we required servicers to obtain flood insurance for remapped properties only if they became aware of such remappings during the normal course of business. We will now require servicers to actively monitor all map and community status changes and to take appropriate actions when changes occur. We do not expect servicers to review their entire portfolio for each map change, rather they may review only the portion of their portfolio that is affected by a specific remapping. Servicers may choose to monitor remappings themselves or to use a flood zone determination company to perform the monitoring.

- Servicers that wish to review map changes themselves may access any of the following to obtain remapping information: (1) Federal Emergency Management Agency flood maps, (2) the Federal Register, or (3) the Federal Emergency Management Agency's compendium of map changes.

- Servicers that use a flood zone determination company to monitor flood zone remappings for mortgages in their portfolio do not need to specifically monitor flood zone remappings themselves since that is a function of the monitoring service.

When a servicer determines that a property has been remapped into a Special Flood Hazard Area and the community in which the property is located is "participating" in the National Flood Insurance Program, the servicer must work with the borrower to obtain the required flood insurance. Servicers should encourage borrowers to obtain coverage as quickly as possible -- the flood insurance policy should be in place within 120 days after the effective date of the remapping. If a borrower refuses to obtain the required coverage or to pay a disputed premium, we still expect the servicer to obtain the required coverage, as part of its responsibility for "protecting our interest in the security." The servicer should make every effort to collect the applicable premium from the borrower, but, if it is unable to do so, we will reimburse the servicer for the cost of the flood insurance policy. We will then advise the servicer about whether any of the remedies permitted under the mortgage should be pursued against the borrower.

If the community in which a remapped property is located is a "non-participating" community under the National Flood Insurance Program, the servicer should assist the borrower in locating a private insurance carrier that can underwrite an acceptable flood insurance policy. If acceptable insurance coverage cannot be obtained, the servicer must contact its Lender Administration Representative in its lead Fannie Mae regional office to determine the course of action we want taken. At a minimum, we will require the servicer to periodically try to obtain adequate coverage from an acceptable carrier.

Servicers must make sure that the properties securing the mortgages they service for us are adequately protected by flood insurance when it is required, with no lapses in coverage for any reason. Because the maximum level of coverage available under the National Flood Insurance Program has been increased to $250,000, servicers of mortgages that we have already purchased or securitized should review the coverage for the mortgages in their Fannie Mae portfolio to determine whether additional coverage needs to be obtained for mortgages that are "underinsured" as the result of the coverage amount having been "capped" by the previous maximum limitations.

It is important for servicers that acquire Fannie Mae servicing portfolios through transfers of servicing to have in place appropriate procedures for (1) performing due diligence with respect to flood insurance coverage (including determining whether any previously arranged "life-of-loan" monitoring arrangement remains in force) and the monitoring of changes in flood maps and community designations, and (2) recording the appropriate vendor and product information in their servicing and accounting systems.

Monitoring Flood Insurance Compliance

We are revising our procedures for monitoring our lenders' compliance with the requirements of the Flood Act and our specific policies. Our compliance reviews will consist of three components. First, when

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we conduct an on-site review of a lender's mortgage underwriting and quality control practices, we will review the lender's procedures for making initial determinations of whether or not properties are located in Special Flood Hazard Areas (and, if they are, for obtaining the required flood insurance). Second, when we conduct on-site reviews of a servicer's mortgage servicing practices, we will verify whether procedures are in place for assuring that any required flood insurance coverage remains in force as long as it is required and for monitoring remappings of flood zones. Third, we will perform a periodic sampling of mortgages from a lender's servicing portfolio to determine whether or not any required flood insurance coverage was obtained and is still in effect.

*****

Lenders may contact either their Account Executive or Lender Administration Representative in their lead Fannie Mae regional office if they have any questions about the policy or procedural changes brought about by the Flood Act.

Robert J. Engelstad
Senior Vice President -
Mortgage and Lender Standards

Bulletin

NUMBER: 94-18

Freddie Mac

TO: All Freddie Mac Sellers and Servicers December 18, 1994

SUBJECT

This bulletin revises Freddie Mac's flood insurance requirements for 1-4 unit dwellings in Special Flood Hazard Areas (SFHAs) in support of the National Flood Insurance Reform Act of 1994. This bulletin alerts you to recent initiatives of the Federal Insurance Administration (FIA) and provides guidance that should help you implement the revised requirements. This bulletin also advises you of the loan-level audits Freddie Mac is conducting to verify compliance with our flood insurance requirements.

EFFECTIVE DATE

Beginning December 8, 1994, you must require Borrowers whose Mortgages have been sold to or serviced for Freddie Mac to obtain flood insurance when postorigination changes in the flood maps place their dwellings "in SFHA." Also beginning immediately, you must include flood insurance documentation in the Mortgage files you send to Freddie Mac for review.

On or after March 1, 1995, you must report the flood insurance status of the Mortgages you sell to Freddie Mac on the delivery forms.

For flood zone determinations (FZDs) made by a third party on or after June 1, 1995, you must ensure that the third party guarantees the accuracy of its determination.

At your option, you may implement any of these changes before its effective date.

HOW THESE CHANGES AFFECT YOU

Determining When Flood Insurance Is Required

The SFHA status of the dwelling will determine whether flood insurance must be in force for Mortgages sold to or serviced for Freddie Mac. So we have revised our requirements as follows:

Effective immediately for Mortgages serviced for Freddie Mac or originated for sale to Freddie Mac, you must require the Borrower to obtain flood insurance in accordance with federal law when a postorigination change in a Federal Emergency Management Agency (FEMA) flood map results in the dwelling's SFHA status changing from "out of SFHA" to "in SFHA."

- For Mortgages sold to Freddie Mac, flood insurance must be obtained for any dwelling which, as of the Funding Date is "in SFHA." The term "Funding Date" is defined in the Glossary Section of the *Single-Family Seller/Servicer Guide* (the Guide).

- For Mortgages serviced for Freddie Mac, flood insurance must be obtained for any dwelling determined to be "in SFHA" as a result of a FEMA remapping occurring after the Funding Date.

If the Borrower fails to supply evidence of flood insurance when required, you must purchase the insurance on behalf of the Borrower and charge the Borrower for the insurance.

Previously, you were required to take action upon a postorigination remapping by FEMA only if you were aware of the remapping. The revised requirement obligates you to monitor FEMA remappings and respond to each remapping if it affects any dwellings securing Mortgages that you service for us or originate for sale to us.

There are three sources you can access for FEMA remapping information:

- FEMA flood maps

- The Federal Register

- FEMA's compendium of map changes (to be available in the future, as required by federal law)

In addition, some FZD companies provide "life-of-loan" coverage for a one-time fee at loan origination. This coverage reportedly ensures that the Mortgage servicer is kept informed of all SFHA status changes affecting the covered dwelling for the term of the Mortgage. If you decide to obtain this type of coverage, we suggest you ensure that the coverage is viable and portable in a servicing transfer situation. Even if you obtain this coverage, you remain responsible to Freddie Mac for monitoring the SFHA status of the dwellings securing Mortgages serviced for us or originated for sale to us.

To get you started, we have attached, as Exhibit D, a FEMA list of communities remapped into SFHAs from October 1993 through September 1994. You should remember, however, that the flood zone determination must be made dwelling by dwelling; you should not conclude that a dwelling is "in SFHA" or "out of SFHA" solely on the basis of the community's name or the Mortgaged Premises' zip code.

Freddie Mac's communication of information on FEMA-remapped communities does not obligate us to keep you informed of SFHA designations, and the absence of such communication does not relieve you of the responsibility for due diligence in the normal course of your loan origination and servicing operations.

Submitting Mortgage Files for Freddie Mac's Quality Control

Effective immediately, you must provide documentation of the FZD performed and, where applicable, evidence of flood insurance with each Mortgage file we request for postfunding quality control review.

Revised Guide Section 44.9(c) (see Exhibit A) specifies acceptable FZD documentation.

Section 58.7 of the Guide specifies the documents that constitute final evidence of insurance to be retained in the Mortgage file. Until final evidence of insurance is available, alternative documentation specified in new Guide Section 46.21 (see Exhibit A) will be acceptable.

Delivering Mortgages to Freddie Mac

Effective for Mortgages delivered to Freddie Mac on or after March 1, 1995, you must identify the SFHA and flood insurance status of each Mortgage by Special Characteristics Codes (SCCs). These new flood insurance SCCs must be reported on Form 11, Mortgage Submission Schedule, or Form 13SF, Mortgage Submission Voucher, as required in the Guide. Both of these forms have been revised to reflect the inclusion of these new SCCs. The revisions are set forth in Exhibit B.

Mortgages delivered on or after March 1, 1995, without SFHA and flood insurance SCCs will not be eligible for purchase by Freddie Mac.

Determining Whether Dwellings Are Located in SFHAs

We have revised the Guide to accommodate FZDs that are not made by an appraiser. You must ensure that any FZD made on or after June 1, 1995, by a third-party FZD) maker (a fee appraiser, a surveyor or a specialized FZD company) is guaranteed by the FZD maker for its accuracy. Ultimately, however, you are responsible to Freddie Mac for the accuracy of an FZD. If you contract with a third-party FZD maker, it is essential that you exercise due care in your selection, paying special attention to the maker's accuracy record and the adequacy of its financial guarantees. Exhibit C suggests areas for you to consider when selecting a third-party FZD contractor.

Obtaining More Information

The FIA, through the National Flood Insurance Program (NFIP), is conducting workshops for Mortgage originators and servicers and is making lender publications and consumer information kits available free of charge upon request.

Since the lack of flood insurance in the face of renewed flooding represents great risks to our Mortgage investments, we strongly encourage you to attend the NFIP workshops and obtain the materials. You can then disseminate the consumer information as a service to your Mortgage customers and your community.

To obtain information on the workshops or to order publications and information kits, please contact the NFIP at (800) 638-6620.

Preparing for Freddie Mac Flood Insurance Audits

During our on-site servicing audits, we have begun to conduct loan-level reviews of your compliance with our flood insurance requirements. These requirements are set forth in Chapter 58 of the Guide. The review process involves Freddie Mac ordering preaudit independent FZDs of dwellings in your Freddie Mac servicing portfolio and verifying, on-site, the flood insurance coverage of dwellings we have determined to be "in SFHA."

CHANGES TO THE *SINGLE-FAMILY SELLER/SERVICER GUIDE*

Exhibit A contains revisions to Guide chapters 44, 46, 47, 56 and 58. Exhibit B contains revisions to Forms 11 and 13SF.

BACKGROUND

Public Law 103-325, the National Flood Insurance Reform Act of 1994, imposes new requirements on Freddie Mac and other financial institutions. The purpose of this law is to increase the number of dwellings covered by flood insurance and ensure compliance with the law by Mortgage originators and servicers. We urge you to become familiar with this important new law.

CONCLUSION

Together, we can help alleviate the hardship inflicted upon Borrowers by uninsured flood losses and, at the same time, reduce our exposure to this risk. If you have questions regarding our flood insurance requirements, please call (800) FREDDIE (option 2).

Cordially,

Michael K. Stamper
Executive Vice President
Risk Management

Exhibit A

Revisions to the Freddie Mac *Single-Family Seller/Servicer Guide*
Re: Revised Flood Insurance Requirements
(Effective Immediately)

The last bullet point of Section 44.9(c) has been revised as follows:

44.9 Property description and analysis on the appraisal report

- **Flood hazard:** The appraisal report must indicate whether the dwelling on the subject property lies within a "Special Flood Hazard Area" (SFHA) as identified by the Federal Emergency Management Agency (FEMA) through the National Flood Insurance Program (NFIP). The flood zone, flood map number and map date must also be stated. (See Section 58.3 for flood insurance requirements.)

  The appraiser need not complete this section if the flood zone is determined by another party, such as a nonappraiser on the staff of the Seller, a surveyor or a specialized flood zone determination company. If the flood zone determination is not made by an appraiser, the resulting flood zone documentation must contain at least the flood hazard information required in the appraisal report and must be attached to the appraisal report. The Seller warrants that any flood zone determination made on or after June 1, 1995, by a party other than the Seller is guaranteed by the flood zone determination maker to be accurate, in accordance with federal law. The Seller, however, remains responsible to Freddie Mac for the accuracy of any flood zone determination made by the Seller or a party other than the Seller.

The fourth paragraph of Section 46.1 has been revised as follows:

46.1
Postfunding quality control

Freddie Mac [3-6, 8]* must receive the requested Mortgage files within 15 Business Days from the date of the letter requesting the Mortgage files. The file for each Mortgage selected for quality control review must contain legible photocopies of the applicable documents listed in Sections 46.2-46.21 and any other documentation requested by Freddie Mac, with one exception. The photographs attached to the copy of the appraisal report must be originals. All documents must be secured to the top right side of a legal-sized manila folder and arranged in the order of documents specified in Sections 46.2-46.22, with the first item on top.

*See the directory in your *Single-Family Seller/Servicer Guide* for address.

Chapter 46 is revised to reflect the addition of two new Sections 46.20 and 46.21, changing present Section 46.20 to 46.22. The complete text of these sections is as follows:

46.20
Documentation of flood zone determination

If the flood zone determination is not made by an appraiser, the determination must be documented as required in Section 44.9(c).

46.21
Evidence of flood insurance

Final evidence of flood insurance must meet the requirements of Section 58.7.

If final evidence of flood insurance is not available at the time of the quality control review, one of the following documents is acceptable:

- Completed and executed NFIP Flood Insurance Application PLUS a copy of the borrower's premium check or agent's paid receipt

OR

46.21
Evidence of flood insurance (continued)

- Completed and executed NFIP Flood Insurance Application PLUS the final HUD-1 reflecting the flood insurance premium collected at closing

  OR

- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy by the property seller to the Borrower

  OR

- Agent-executed NFIP Certification of Proof of Purchase of Flood Insurance

If the flood insurer is not the NFIP, the insurer's equivalent of the applicable NFIP form is acceptable.

If the appraisal report or flood zone determination documentation shows the dwelling is in SFHA but flood insurance was waived, the Mortgage file must include the documentation which served as the basis for the waiver, specifically, a FEMA Letter of Map Amendment (LOMA) or a FEMA Letter of Map Revision (LOMR).

46.22
Other documentation

The Seller agrees to maintain and submit all other documents Freddie Mac requests. All submitted documents must be legible. Freddie Mac may require that the requested documents be delivered to Freddie Mac or to a third-party Custodian.

Section 47.6 is revised as follows:

47.6
Property insurance policies

The file must contain property insurance policies, properly endorsed, or suitable evidence of insurance as described in Section 58.7, unless the Seller or Servicer carries Mortgage impairment insurance instead of maintaining possession of property insurance policies.

The second bullet Point of Section 56.14 is revised as follows:

56.14
Notices to third parties

- Advise all applicable property insurers including, if applicable, FEMA, of the transfer and of the name and address of the Transferee to modify the Mortgage clause required by Section 58.6

The first paragraph of Section 58.9 is revised as follows:

58.9
Special insurance requirements and changes in insurance requirements

The Seller/Servicer must require the Borrower to obtain appropriate insurance coverage in accordance with the terms of the Security Instrument and applicable law when any of the following conditions exists:

The second bullet point of Section 58.9 is revised as follows:

- The area where the Mortgaged Premises are located was not subject to flood insurance requirements at inception of the Mortgage or when Freddie Mac purchased the Mortgage, but has now been classified as an SFHA and the dwelling on the Mortgaged Premises is determined to be in the new SFHA. If the new flood zone determination is not made by an appraiser, the determination must be documented as required in Section 44.9(c). The Servicer warrants that any flood zone determination made on or after June 1, 1995, by a party other than the Servicer is guaranteed by the flood zone determination maker to be accurate, in accordance with federal law. The Servicer, however, remains responsible to Freddie Mac for the accuracy of any flood zone determination made by the Servicer or a party other than the Servicer.

Exhibit B

Revisions to the Freddie Mac *Single-Family Seller/Servicer Guide*
Re: Revised Flood Insurance Requirements
(Effective March 1, 1995)

Revised Form 11

Form 11

Four new Special Characteristics Codes are added to the list on page F11-5, as follows:

170 = in SFHA with flood insurance
185 = in SFHA without flood insurance
175 = out of SFHA with flood insurance
180 = out of SFHA without flood insurance

One additional paragraph has been added to the end of this section on page F11-5. The language of the new last paragraph is as follows:

Mortgages delivered on or after March 1, 1995, without SFHA and flood insurance Special Characteristics Codes (SCCs) will not be eligible for purchase by Freddie Mac.

Revised Form 13SF

Four new Special Characteristics Codes are added to the list on page F13SF-5, as follows:

Form 13SF

170 = in SFHA with flood insurance
185 = in SFHA without flood insurance
175 = out of SFHA with flood insurance
180 = out of SFHA without flood insurance

Form 13SF (continued)

One additional paragraph has been added to the end of this section on page F13SF-6. The language of the new last paragraph is as follows:

Mortgages delivered on or after March 1, 1995, without SFHA and flood insurance Special Characteristics Codes (SCCs) will not be eligible for purchase by Freddie Mac.

Exhibit C

SUGGESTED AREAS FOR REVIEW IN SELECTING A FLOOD ZONE DETERMINATION PROVIDER

1 How long has the provider been in the business of making flood zone determinations (FZDs)?

2 In what areas of the country does the provider make FZDs?

3 What map sources are used for FZDs? How are these sources used? How are these sources kept current?

4 What techniques and processes are used for FZDs? Does the FZD read to the property boundary line or to the dwelling on the property? What techniques and processes are used for contested FZDs?

5 What quality control procedures does the FZD provider rely upon?

6 What property data are required for an FZD? What media are available for you to provide the data and to receive the FZD report? What is the typical turnaround time for an FZD? What is the typical turnaround time for a redetermination?

7 What training is provided to the FZD staff?

8 What level of pre- and post-FZD customer service support is available to the FZD client?

9 Is life-of-loan coverage available? If so,

- Does it cover changes that do not result in new map panels, such as those changes made by LOMAs or LOMRs?
- How and how often are changes communicated?
- How are servicing transfers handled?
- How are the legal and service liabilities funded?

10 What disaster recovery systems and processes are in place to ensure integrity and continuity of the FZD operations?

11 Is there an indemnification backing the guarantee of accuracy of an FZD? If so,

- Does it provide for, at a minimum, refunding all paid flood insurance premiums for inaccurately placing a dwelling "in SFHA?"
- Does it provide for compensation for incurred damages at least equal to compensation claimable under a flood insurance policy for inaccurately placing a dwelling "out of SFHA?"

Other considerations should include

- The financial strength of the guarantor and any insurer
- The insurer's rating by A.M. Best, Standard & Poor's, Moody's or a comparable rating company
- The insurance limits of liability
- The scope of coverage of the insurance policy
- Claim settlement procedures (including turnaround time) and claim experience
- Error rates
- References from other Mortgage industry clients
- Whether financial statements and internal controls are audited by an Independent Public Accountant
- Whether the provider is or has been subject to litigation or regulatory action over FZD accuracy

12 What is the provider's FZD fee structure?

Bulletin

NUMBER: 95-3

Freddie Mac

TO: All Freddie Mac Sellers and Servicers March 13, 199

SUBJECT

This bulletin modifies our flood insurance requirements for 1-4 unit dwellings announced in Bulletin 94-18, dated December 8, 1994, to clarify the Servicers' role when Federal Emergency Management Agency (FEMA) map changes occur after a Mortgage has been originated.

This bulletin also advises you of actions you must take as a result of the National Flood Insurance Program (NFIP) increasing the maximum amount of insurance sold for 1-unit dwellings from $185,000 to $250,000.

EFFECTIVE DATES

Map Changes

For any FEMA postorigination map change with an effective date

- **From October 15, 1993, to September 30, 1994,** you have until April 8, 1995, to have flood insurance in force on any dwelling determined to be in a Special Flood Hazard Area (SFHA)
- **From October 4, 1994, to March 23, 1995, you** have until July 13, 1995, to have flood insurance in force on any dwelling determined to be "in SFHA"
- **On or after April 1, 1995,** you have 120 days from the effective date of the map change to have flood insurance in force on any dwelling determined to be "in SFHA"

Flood Insurance Cap

Flood insurance policies obtained on or after March 1, 1995, must provide coverage at least equal to the coverage required under Section 58.3(a) of the Freddie Mac *Single-Family Seller/Servicer Guide* (the Guide), subject to the new cap of $250,000.

Bulletin 95-3

Flood insurance policies obtained before March 1, 1995, are subject to the new $250,000 cap and coverage must be adjusted, if necessary, by the later of

- May 31, 1995, or
- The first renewal date (or first anniversary date if a three-year policy) after March 1, 1995

Examples of renewal dates and coverage adjustment dates for affected flood insurance policies are as follows:

Renewal Date	Coverage Adjustment Date
9/1/94	9/1/95
10/1/94	10/1/95
11/1/94	11/1/95
12/1/94	12/1/95
1/1/95	1/1/96
2/1/95	2/1/96
3/1/95	5/31/95
4/1/95	5/31/95
5/1/95	5/31/95
6/1/95	6/1/95

WHY WE'RE MAKING THESE CHANGES

Many of you have asked us to define your responsibility for acting on FEMA map changes. Therefore, we are modifying the requirements of Bulletin 94-18 to clarify your responsibility and reduce your costs. Under Bulletin 94-18, you were required to review your portfolio for all map changes; now you must do so only for map changes with effective dates on or after October 15, 1993.

We are also responding to your request for guidance in implementing the higher NFIP cap. The NFIP raised its flood insurance coverage limit for l-unit dwellings, as of March 1, 1995, in accordance with the National Flood Insurance Reform Act of 1994. We have revised our flood insurance requirements to comply with this new cap.

HOW THESE CHANGES AFFECT YOU

Responding to Map Changes

Sacramento map changes. Freddie Mac notified all Servicers on May 18, 1990, of map changes affecting the city of Sacramento, CA. You are already responsible for ensuring that dwellings "in SFHAs" have flood insurance as a result of the Sacramento map change.

Map changes before October 15, 1993. For FEMA map changes with an effective date before October 15, 1993, you must require a Borrower to obtain flood insurance if you are aware that a dwelling has been classified as "in SFHA" (see Section 58.9 of the Guide in effect prior to Bulletin 94-18).

Map changes from October 15, 1993 to March 31, 1995. In Bulletin 94-18 we published a list of flood map changes with effective dates between October 15, 1993, and September 30, 1994. We have made you aware of those map changes, and you have until April 8, 1995, to have flood insurance in place for any dwelling determined to be "in SFHA."

We have attached, as Exhibit B, a FEMA list of communities with map changes effective from October 4, 1994, through March 23, 1995. (If any changes occur between March 23, 1995, and April 1, 1995, we will advise you of them as well.) You will have until July 13, 1995, to ensure that dwellings that are "in SFHA" as a result of the changes in Exhibit B are covered by flood insurance.

Map changes on or after April 1, 1995. For any Mortgages you service for Freddie Mac, you must ensure that flood insurance is in force for any dwellings which are "in SFHA" on or after April 1, 1995. This insurance must be in force within 120 days of the effective date of any map change by FEMA.

This requirement means that you must have processes in place that will allow you to

- Identify all map changes
- Determine which dwellings on Mortgaged Premises in the affected communities are now "in SFHA," and
- Ensure that affected Borrowers obtain flood insurance

Responding to the New Flood Insurance Cap

The $250,000 NFIP cap means that some of the l-unit dwellings insured for $185,000 under flood insurance policies obtained before March 1, 1995, may now be underinsured. Those dwellings must have their coverage increased so that coverage continues to be at least equal to the unpaid principal balance of the Mortgage or 80 percent of the insured dwelling's replacement cost, whichever is higher, in accordance with Guide Section 58.3(a).

The NFIP cap for 2-4 unit dwellings remains unchanged at $250,000.

You need to monitor and follow up on flood insurance renewal notices to ensure that affected Borrowers update their coverage. The Borrowers' insurance agents should be advising Borrowers and their Mortgage servicers of the higher NFIP cap, and may identify those dwellings that are underinsured.

The NFIP will pay for any flood loss sustained on a l-unit dwelling insured under a pre-March 1, 1995, policy by applying the replacement cost provision as follows:

- Based on the NFIP cap of $185,000 for any flood loss that occurs between March 1, 1995, and May 31, 1995

- Based on the NFIP cap of $250,000 for any flood loss that occurs on or after June 1, 1995

Complying With Other Freddie Mac Flood Insurance Requirements

Other requirements announced in Bulletin 94-18 are not affected by this bulletin.

Complying With Applicable Laws, Regulations and Requirements

In addition to Freddie Mac's requirements, you must comply with all applicable laws, regulations and FHA/VA requirements related to flood insurance.

REVISIONS TO THE *SINGLE-FAMILY SELLER/SERVICER GUIDE*

Exhibit A revises Guide Section 58.9 to clarify your responsibility for responding to map changes. These revisions, which supersede the changes announced in Bulletin 94-18 to Section 58.9, will be incorporated into a future Guide update.

Because Section 58.3(a) of the Guide already caps our flood insurance requirement at "the maximum amount of insurance currently sold under the NFIP for the type of improvements insured," no Guide change is necessary.

CONCLUSION

The goal of our flood insurance policy is to minimize losses for homeowners, Seller/Servicers and Freddie Mac. We believe that our requirements, as modified by this bulletin, represent a reasonable approach to managing the risk associated with uninsured flood losses. As nature recently showed us in California, these risks are very real. Many of the flooded California communities were included in the map changes we identified in Bulletin 94-18.

If you have questions regarding our flood insurance requirements, please call (800) FREDDIE (option 2).

Cordially,

Michael K. Stamper
Executive Vice President
Risk Management

Exhibit A

Revisions to the Freddie Mac *Single-Family Seller/Servicer Guide*
Re: Revised Flood Insurance Requirements
(Effective March 13, 1995)

The second bullet point of Section 58.9 (as revised by Bulletin 94-18, dated December 8, 1994) has been revised as follows:

58.9 Special insurance requirements and changes in insurance requirements

The area where the Mortgaged Premises are located was not subject to flood insurance requirements at origination of the Mortgage, or when Freddie Mac purchased the Mortgage, but has now been classified as an SFHA by a FEMA map change, the Servicer is aware of such classification and the Servicer has determined that the dwelling on the Mortgaged Premises is in the new SFHA. Flood insurance required under these provisions must be in force within 120 days of the effective date of the map change or the related Freddie Mac announcement.

The Servicer must have processes in place that allow the Servicer to identify any map change that becomes effective on or after April 1, 1995, determine which dwellings on Mortgaged Premises in the community affected by the map change are now "in SFHA" and ensure that affected borrowers obtain flood insurance within 120 days of the effective date of the map change.

Any new flood zone determination necessitated by the above provisions that is not made by an appraiser must be documented as required in Section 44.9(c). The Servicer warrants that any flood zone determination made on or after June 1, 1995, by a party other than the Servicer is guaranteed by the flood zone determination maker to be accurate, in accordance with federal law. The Servicer, however, remains responsible to Freddie Mac for the accuracy of any flood zone determination made by the Servicer or a party other than the Servicer.

Industry Letter

May 4, 1998

SUBJECT: Flood Insurance on Los Angeles Properties

Freddie Mac

TO: All Freddie Mac Sellers and Servicers

The Federal Emergency Management Agency (FEMA) has identified parts of 14 Los Angeles-area communities as Special Flood Hazard Areas (SFHAs), or high-risk flood zones. The agency will show these SFHAs as AR Zones on new Flood Insurance Rate Maps (FIRMs) that are effective on July 6.

Los Angeles Communities Affected By FEMA Map Changes		
Bellflower	Lakewood	Montebello
Carson	Long Beach	Paramount
Compton	The City of Los Angeles	Pico Rivera
Downey	Los Angeles County	South Gate
Gardena	Lynwood	

Properties that secure mortgages you sell to Freddie Mac or currently service for us must be insured against flood hazards if they're located in an SFHA. You need to review your mortgage files to identify any Los Angeles-area properties that require flood insurance as a result of the FEMA map changes. Then you must advise borrowers whose properties are not properly insured that they have to obtain and maintain the required flood insurance coverage.

We encourage you to review our flood insurance requirements in *Single-Family Seller/Servicer Guide* Sections 44.9, 46.20, 46.21, 58.3 and 58.9. If you rely on a flood-zone determination vendor to identify properties affected by FEMA map changes, we also recommend that you consult with your vendor as soon as possible.

Mortgages that you deliver to us on or after July 6 which are secured by Los Angeles-area properties in newly designated SFHAs must have the required flood insurance coverage. For mortgages you currently service for us, you have until November 6—120 days from the effective date of the FEMA map changes—to

- Identify those secured by Los Angeles-area properties in newly designated SFHAs and
- Have flood insurance in place where applicable

If you haven't already begun to identify the properties and borrowers affected by the FEMA map changes, we urge you to start as soon as possible. By acting now, you can give your borrowers an opportunity to purchase flood insurance at current non-SFHA rates. If borrowers who have properties in the new SFHAs purchase flood insurance on or after July 6, they'll pay the higher SFHA rate.

FEMA gave us an example of a home in one of the new SFHAs that would be insured today for a non-SFHA annual premium of $281 for $100,000 of building coverage. Flood insurance purchased on or after July 6 for that same home will cost the borrower $595 for $100,000 of building coverage.

For more information about FEMA's map revisions, you can call (800) 427-4661 or the National Flood Insurance Program's regional office serving your state. You can also visit FEMA's web site at http://www.fema.gov.

If you have questions about our flood insurance requirements, please call your account manager or (800) FREDDIE.

Sincerely,

David Andrukonis	Paul T. Peterson
SVP and General Manager	Senior Vice President
Seller Division	Servicer Division

44.9
Property description and analysis on the appraisal report (continued)

- **Streets:** The subject property must have legally appropriate ingress and egress. The streets serving the subject property must be maintained in a manner that generally meets community standards. In addition, the comparable sales should have street maintenance similar to the subject property. When differences exist between the ownership or maintenance of the subject property's streets and the comparable sale's streets, adjustments made to the comparable sale, or lack of adjustments, for the differences must be explained in the comments area. In addition, the appraisal report must evaluate the effect these differences have on the subject property's value or marketability.

~~SFHA~~
~~FEMA~~
~~NFIP~~

- **Flood hazard:** The appraisal report must indicate whether the dwelling on the subject property lies within a "Special Flood Hazard Area" (SFHA) as identified by the Federal Emergency Management Agency (FEMA) through the National Flood Insurance Program(NFIP). The flood zone, flood map number and map date must also be stated. (See Section 58.3 for flood insurance requirements.)

The appraiser need not complete this section if the flood zone is determined by another party, such as a nonappraiser on the staff of the Seller, a surveyor or a specialized flood zone determination company. If the flood zone determination is not made by an appraiser, the resulting flood zone documentation must contain at least the flood hazard information required in the appraisal report and must be attached to the appraisal report. The Seller warrants that any flood zone determination made on or after June 1, 1995, by a party other than the Seller is guaranteed by the flood zone determination maker to be accurate, in accordance with federal law. The Seller, however, remains responsible to Freddie Mac for the accuracy of any flood zone determination made by the Seller or a party other than the Seller.

SFHDF

Any flood zone determination made by any party on or after January 2, 1996, must be documented by a completed FEMA Standard Flood Hazard Determination, FEMA Form 81-93, dated June 1995, (Standard Flood Hazard Determination Form (SFHDF), Exhibit 13) in accordance with federal law. The SFHDF may be used in printed, computerized or electronic format. If an electronic format is used, the exact format and layout of the SFHDF are not required, but all the fields and elements not identified as optional on the SFHDF are required. At the option of the flood zone determination maker, the SFHDF may be used before January 2, 1996.

44.9
Property description and analysis on the appraisal report (continued)

(e) Impact of Contaminated Sites, Hazardous Substances and other adverse conditions

The appraiser must consider any known Contaminated Sites or Hazardous Substances that affect the property or the neighborhood in which the property is located. The appraiser must also note the presence of Contaminated Sites or Hazardous Substances in the appraisal report, make any appropriate adjustments to market value to reflect them, and comment on the effect they have on the marketability or value of the subject property.

Examples of matters about which the appraiser must note and comment include, but are not limited to,

- Any presence of asbestos, urea-formaldehyde or any similar insulation in the dwelling
- Proximity of the property and/or its neighborhood to a Contaminated Site
- Proximity of the property to ground water contamination, chemical or petroleum spills or other Hazardous Substances that are expected to impact the area for more than one year

The appraiser must also comment on, and consider the impact on the value of the property of, the proximity of the property to areas that may affect the value or marketability of the property, including, but not limited to, the following:

1. Industrial sites
2. Waste or water treatment facilities
3. Commercial establishments (other than retail establishments that serve the residential neighborhood)
4. Airport approach paths
5. Flood plains
6. Landslide areas

(f) Comments section

Any additional features; necessary repairs or modernization; or physical, functional or external inadequacies must be reported in the "comments" sections of the form. <u>Repairs that are not cosmetic must be completed prior to delivery of the Mortgage to Freddie Mac.</u> Cosmetic repairs, defined as those not affecting the safety, structural

46.15	
Mortgage payment history	A payment history is required from the Origination Date of the Mortgage sold to Freddie Mac. This Mortgage payment history must • Demonstrate no Delinquencies of 30 days or more • Be understandable without code translation
46.16	
Verification of source of funds	Evidence of verification of all sources of cash or other equity or assets used for down payment, prepaid items, closing costs, financing costs and reserves is required. Verification must be in accordance with Section 37.23.
46.17	
Verification of previous Mortgage/rental payment history	Evidence of verification of Mortgage payment history and/or rental payment history for the 12-month period prior to Mortgage application is required.
46.18	
Sales contract	For purchase Mortgages, a copy of the sales contract is required.
46.19	
Closing statements	The final HUD-1 or other Mortgage closing statements signed by all parties to the transaction and evidencing all costs to home buyer and home seller are required.
46.20	
Documentation of flood zone determination	The flood zone determination must be documented as required in Section 44.9(c).

46.21

Evidence of flood insurance

Final evidence of flood insurance must meet the requirements of Section 58.7.

If final evidence of flood insurance is not available at the time of the quality control review, one of the following documents is acceptable:

Completed and executed NFIP Flood Insurance Application PLUS a copy of the borrower's premium check or agent's paid receipt

OR

- Completed and executed NFIP Flood Insurance Application PLUS the final HUD-1 reflecting the flood insurance premium collected at closing

OR

- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy by the property seller to the Borrower

OR

- Agent-executed NFIP Certification of Proof of Purchase of Flood Insurance

If the flood insurer is not the NFIP, the insurer's equivalent of the applicable NFIP form is acceptable.

LOMA
LOMR

If the appraisal report or flood zone determination documentation shows the dwelling is in SFHA but flood insurance was waived, the Mortgage file must include the documentation which served as the basis for the waiver, specifically, a FEMA Letter of Map Amendment (LOMA) or a FEMA Letter of Map Revision (LOMR).

46.22

Other documentation

The Seller agrees to maintain and submit all other documents requested by Freddie Mac. All submitted documents must be legible. Freddie Mac may require that the requested documents be delivered to Freddie Mac or to a third-party Custodian.

47.3

Assignment instrument (continued)

- If the Mortgage is registered with MERS and originated with MERS named in the Security Instrument as the original mortgagee of record, then no original recorded assignment to MERS is required

If the Seller/Servicer uses a third-party Custodian or is a self-Custodian then the assignments will be held by the Custodian.

47.4

Power of attorney

If the Note was executed by a person acting as attorney-in-fact pursuant to authority granted by a Borrower under a power of attorney, the copy of the power of attorney must be attached to the copy of the Note kept in the file. Refer to Section 16.5 for documentation delivery requirements for powers of attorney.

47.5

Plat of survey

The file must contain a plat of survey, if required by Section 39.2(e).

47.6

Property insurance policies

The file must contain property insurance policies, properly endorsed, or suitable evidence of insurance as described in Section 58.7, unless the Seller or Servicer carries Mortgage impairment insurance instead of maintaining possession of property insurance policies.

47.7

Assurance of water supply

If the Mortgaged Premises are dependent for assurance of an adequate supply of water on a water or irrigation company that supplies water only to its shareholders, the file must contain a stock certificate, duly endorsed to Freddie Mac, entitling the property owner to an adequate supply of water.

58.3

Flood insurance

FEMA

SFHA

If the area where the Mortgaged Premises are located has been identified by the Director of the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA), the Seller/Servicer must ensure that flood insurance is maintained and that it provides coverage at least equivalent to that provided under the NFIP in the amount specified later in this section.

The Seller/Servicer may waive the flood insurance requirement if

- The land or a portion of it is in an SFHA but the improvements are not, or
- The Borrower has provided the Seller/Servicer with a Letter of Map Amendment (LOMA) from FEMA excluding the improvements or the entire property from an SFHA, or
- The Borrower has provided the Seller/Servicer with a Letter of Map Revision (LOMR) from FEMA removing the community's SFHA designation

LOMA

LOMR

If the area where the Mortgaged Premises are located is an SFHA but the community does not participate in the NFIP ("nonparticipating community"), the Mortgage is not eligible for sale to Freddie Mac.

(a) 1-4 unit properties

The insurance limits must at least equal the **higher** of

- The unpaid balance of the Mortgage* up to 100 percent of the full replacement cost of the insurable improvements (*for a Second Mortgage/HIL, the aggregate unpaid balance of the Second Mortgage/HIL and all outstanding superior liens on the Mortgaged Premises)
- 80 percent of the full replacement cost of the insurable improvements

However, the insurance limits need not exceed the maximum amount of insurance currently sold under the NFIP for the type of improvements insured.

The deductible may not exceed the higher of $1,000 or 1 percent of the policy's insurance limits, subject to the maximum deductible amount allowed under the NFIP.

Flood insurance (continued)

(b) PUD units
Flood insurance requirements for 1-4 unit properties apply to similar residential properties within a PUD.

(c) PUD homeowners associations
The PUD homeowners association must maintain coverage on common areas and property for 100 percent of their insurable value. Deductibles may not exceed the lower of $5,000 or 1 percent of the applicable amount of coverage. Funds for such deductibles must be included in the association's reserves and must be so designated.

(d) Condominium units
Flood insurance requirements for townhouses and rowhouses are those applicable to 1-4 unit properties. Flood insurance is not required for individual units within a high-rise or vertical condominium.

(e) Condominium owners associations
The condominium owners association must maintain coverage for detached common elements and property for 100 percent of their insurable value.

If the condominium consists of high-rise or other vertical dwelling units, the condominium association must maintain coverage that meets the following requirements:

1. The amount of buildings coverage must equal 100 percent of the insurable value of the common elements and property, including any machinery and equipment that are part of the buildings.
2. The contents coverage must equal 100 percent of the insurable value of all contents, including machinery and equipment not part of the buildings, that are owned in common by the association members.
3. Deductibles may not exceed the lower of $5,000 or 1 percent of the applicable amount of coverage.
4. Funds for such deductibles must be included in the association's reserves and be so designated.
5. A separate condominium association endorsement is required if not already a part of the policy.

58.9

Special insurance requirements and changes in insurance requirements

The Seller/Servicer must require the Borrower to obtain appropriate insurance coverage in accordance with the terms of the Security Instrument and applicable law when any of the following conditions exists:

- The Seller/Servicer becomes aware of localized perils (for example, flood, sinkhole, mine subsidence, volcanic eruption, avalanche) that are not covered by standard property insurance.
- The area where the Mortgaged Premises are located was not subject to flood insurance requirements at inception of the Mortgage or when Freddie Mac purchased the Mortgage, but has now been classified as an SFHA by a FEMA map change, the Servicer is aware of such classification and the Servicer has determined that the dwelling on the Mortgaged Premises is in the new SFHA. Flood insurance required under these provisions must be in force within 120 days of the effective date of the map change or the related Freddie Mac announcement.

  The Servicer must have processes in place that allow the Servicer to identify any map change that becomes effective on or after April 1, 1995, determine which dwellings on Mortgaged Premises in the community affected by the map change are now "in SFHA" and ensure that affected Borrowers obtain flood insurance within 120 days of the effective date of the map change.

  Any new flood zone determination necessitated by the above provisions that is not made by an appraiser must be documented as required in Section 44.9(c). The Servicer warrants that any flood zone determination made on or after June 1, 1995, by a party other than the Servicer is guaranteed by the flood zone determination maker to be accurate, in accordance with federal law. The Servicer, however, remains responsible to Freddie Mac for the accuracy of any flood zone determination made by the Servicer or a party other than the Servicer.

- The area where the Mortgaged Premises are located is an SFHA but the community has become a nonparticipating community and flood insurance provided by the NFIP will not be renewed.
- The Borrower does not maintain any of the insurance coverages required of the Borrower in Sections 58.2B58.3.1.

58.9

Special insurance requirements and changes in insurance requirements (continued)

The Servicer must follow up to verify that adequate coverage has been obtained and remains in force. If the Borrower does not or cannot obtain such coverage, the Servicer must do so. The Servicer must then adjust the Borrower's Escrow payments accordingly or bill the Borrower to recover the advance if the Servicer does not maintain an Escrow account for the Borrower. If the Borrower refuses to reimburse the Servicer, the Servicer may recommend acceleration to Freddie Mac for the Borrower's default under the terms of the Security Instrument.

If the additional coverage cannot be obtained, the Servicer must immediately make appropriate recommendations to Freddie Mac [11].

The Servicer may authorize the Borrower to discontinue flood insurance coverage upon verification of map revision or receipt of either

- A LOMA issued to the Borrower by FEMA, or
- A LOMR issued to the Borrower's community by FEMA

58.10

Insurance loss settlements

Upon notification of loss or damage to the Mortgaged Premises, the Servicer must monitor and coordinate the claim process with the Borrower and the insurer. The Servicer must take appropriate action to

- Verify the extent of the loss or damage
- Ensure judicious disbursement of insurance proceeds for the necessary repairs
- Protect the priority of the Mortgage by obtaining, where necessary, waivers of materialman's or mechanic's liens
- Document completion of the repairs

Refer to Section 67.27, Servicing Mortgages on distressed properties, for additional requirements.

The Servicer may be named as loss payee on insurance drafts and must comply with any applicable law and, where applicable, any requirement of the FHA, VA or MI. Details concerning the loss or damage and disposition of the insurance proceeds must be recorded in the Mortgage file.

58.10

Insurance loss settlements (continued)

◊ The contractor, its subcontractors and its material suppliers will provide written acknowledgment of payment for work performed and materials supplied and the necessary lien waivers or releases so that the Mortgaged Premises may remain clear of all such liens and encumbrances.

- Each scheduled work phase has been satisfactorily completed in accordance with the plans and specifications before disbursement of payment for such phase is made in accordance with the contract

The Servicer may choose to have the above described oversight functions performed by its staff or by a third party (such as a specialized firm or another Servicer). However, the Servicer is liable for the performance of any third party it retains. The third party may be compensated from insurance proceeds retained by the Servicer only to the extent agreed to by the Borrower and allowed under applicable law.

58.11

Disaster losses

When a natural disaster (for example, earthquake, flood or hurricane) or a man-made disaster (for example, civil disturbance) strikes an area containing properties that secure Mortgages the Servicer services for Freddie Mac, the Servicer must promptly

1. Ascertain the number of such properties
2. Determine the extent of the losses or damages suffered by such properties
3. Secure any abandoned properties
4. Assist Borrowers in filing for property insurance claims and/or disaster assistance
5. Assist Borrowers through counseling and any appropriate repayment plan as provided under Sections 65.4B65.6 and as coordinated with the benefits of property insurance and/or disaster assistance

58.11

Disaster losses (continued)

EDR

6. Report to Freddie Mac [11] all Mortgages that are 30 or more days delinquent secured by properties that have suffered from disaster-caused losses via an Electronic Default Reporting (EDR) transmission. This report must be sent within the first three Business Days of the month following the occurrence of the disaster using default reason code 019 (casualty loss).
7. Report to Freddie Mac on all Mortgages that are subject to a repayment plan or a short or long-term forbearance plan resulting from disaster-caused involuntary inability to pay via an EDR transmission using default code 09 (Forbearance or repayment plan) within the first three Business Days of the month following the month that the plan was entered into. The Servicer must continue to report that the Mortgage is under the plan, until the Mortgage is fully reinstated or the plan ends. Refer to Chapter A65 for more details.

A Borrower to whom a repayment plan is extended because of disaster-related circumstances must not be

- Assessed late charges, as long as he or she is paying as agreed in the repayment plan
- Reported to credit repositories on account of making approved reduced or deferred payments

Collection, foreclosure and eviction proceedings may be suspended at the Servicer’s discretion for up to 90 days from the date a disaster strikes, based on the relative merits of each case. Relevant factors would include the degree to which the disaster has reduced the Borrower’s income, increased the Borrower’s living expenses, damaged the Mortgaged Premises or limited the availability of alternative housing. When applicable, such a suspension of Servicing action must be preapproved by the MI, FHA or VA to avoid jeopardizing benefits of any applicable insurance or guaranty.

At the end of the 90-day period, the Servicer must reassess the individual Borrower’s circumstances, based on property inspections and Borrower contacts, to determine whether a Mortgage repayment plan can be worked out or whether the proceedings should be initiated or resumed.

Disaster losses (continued)

In making such determinations, Servicers should consider the following options:

- Mortgage relief: Short-term forbearance and repayment plans do not require Freddie Mac's prior approval. Long-term forbearance requires our prior approval. Guidelines for these measures can be found in Chapter A65.
- Mortgage workout: A short payoff, workout Mortgage assumption, deed in lieu of foreclosure or chargeoff may be a viable option depending on the Borrower's particular circumstances. Freddie Mac's prior review and approval are required. Refer to Chapter B65. The Servicer's recommendation must include a detailed explanation of the Servicer's attempts to cure the default and the status of the property insurance claims and related claim proceeds.
- Foreclosure: In some cases, foreclosure may be the only option left and must be handled in accordance with Chapter 66. As a final step in avoiding foreclosure, however, the Servicer must inform the Borrower of and give the Borrower the opportunity to apply for FEMA Mortgage assistance, if the Mortgaged Premises are located in a presidential major disaster area and federal individual assistance has been made available to victims of the disaster.

Refer to Section 67.29, Servicing Mortgages on properties affected by disasters, for additional Servicing requirements. Information on federal disaster assistance can be found in Exhibit 52.

Exhibit 52

Federal Disaster Assistance

Presidential Declarations

When disaster strikes and the President of the United States declares the affected area a major disaster area, federal individual assistance may be made available to disaster victims. Such assistance may be provided through programs such as

- Disaster Housing Program (Rental Assistance, Home Repair Assistance and Mortgage and Rental Assistance) administered by the Federal Emergency Management Agency (FEMA)
- Low-interest Small Business Administration (SBA) loans for homeowners and businesses
- Individual and Family Grant Program (administered by the State with FEMA oversight) for those disaster victims who do not qualify for SBA loans and have disaster-related serious needs and/or necessary expenses

This assistance is designed to supplement State and local assistance and the proceeds of insurance claimable under property insurance policies.

Mortgage and Rental Assistance (MRA), provided through FEMA's Disaster Housing Program, helps qualified applicants avoid foreclosure or eviction by providing grants for Mortgage or rent payments for a period of up to 18 months or for the duration of a demonstrated, disaster-related financial hardship, whichever is less. To qualify for MRA from FEMA, an applicant must

- Occupy and, following a disaster, continue to occupy the property as a Primary Residence (and the property must be sound, with minimal or no impact from the disaster)
- Have received a written foreclosure/eviction notice because of a disaster-related Delinquency
- Demonstrate that the inability to make Mortgage or rent payments is a result of disaster-related financial hardship

Once an area has been declared a presidential major disaster area and federal individual assistance is made available, FEMA may set up one or more interagency Disaster Recovery Centers (DRCs) in the disaster area to assist individuals with disaster-related questions. The sites of these DRCs will be announced via the local media.

Registrations for disaster assistance are taken by telephone. The numbers are:

- (800) 462-9029
- (800) 462-7585 (for the hearing impaired)

Exhibit 52 **Federal Disaster Assistance**

For inquiries about whether an area has been declared a presidential major disaster area, Seller/Servicers may contact FEMA at (202) 646-3260 or (202) 646-3629.

Borrowers should be aware that the President may declare an emergency or major disaster in which only the Public Assistance program is made available in designated areas. The Public Assistance program provides supplemental federal funding to State and local governments for a variety of projects, including clearance of debris, emergency protective measures and repair or replacement of public-owned facilities or structures. The Public Assistance program does not provide assistance to individuals or business owners.

SBA Disaster Declarations

When the SBA Administrator declares a disaster loan area under SBA's statutory authority, homeowners and businesses of all sizes may be eligible for the same low-interest SBA loans that are available when a presidential major disaster declaration is made.

Such SBA loans include the following:

- A disaster home loan to a homeowner (or tenant) to repair or replace a Primary Residence/personal property that has been damaged or destroyed by the disaster
- A business physical disaster loan to a business of any size to repair or replace business property (including inventory and supplies) that has been damaged or destroyed by the disaster
- An economic injury disaster loan for working capital to assist a small business or a small agricultural cooperative through the disaster recovery period (provided the business or cooperative is unable to obtain similar financing from nongovernment sources)

Information regarding SBA disaster loans may be obtained from one of the following SBA Disaster Area Offices:

Homeowners and businesses located in	**Call**
Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, Virginia, (United States) Virgin Islands, West Virginia	**Niagara Falls SBA** (800) 659-2955 OR (716) 282-4612
Alabama, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Minnesota, Mississippi, North Carolina, Ohio, South Carolina, Tennessee, Wisconsin	**Atlanta SBA** (800) 359-2227 OR (404) 347-3771

Homeowners and businesses located in	Call
Arkansas, Colorado, Iowa, Kansas, Louisiana, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Utah, Wyoming	**Forth Worth SBA** (800) 366-6303 OR (817) 885-7600
Alaska, American Samoa, Arizona, California, Guam, Hawaii, Idaho, Federated States of Micronesia, Nevada, Commonwealth of the Northern Mariana Islands, Oregon, Trust Territory of the Pacific Islands, Washington	**Sacramento SBA** (800) 488-5323 OR (916) 566-7240

Federal Housing Administration Mortgage Insurance Programs

The Federal Housing Administration (FHA) also insures loans made to disaster victims under the following programs:

- **Section 203(h), mortgage insurance for disaster victims:** to help a disaster victim purchase a residence to replace the residence that was destroyed or damaged to such an extent that reconstruction or replacement is necessary. The loan application must be submitted to the lender within one year of the date of the related presidential major disaster declaration. The residence to be financed by a Section 203(h) Mortgage must be

    - A one-unit property

    - The applicant's Primary Residence

  The replacement residence need not be located in the disaster area.

- **Section 203(k), rehabilitation mortgage insurance:** to help a disaster victim repair a disaster-damaged residence or reconstruct a disaster-destroyed residence

- **Title I, property improvement and Manufactured Home loans:** to help a disaster victim repair, rebuild, or replace a disaster-damaged residence

Applications for the above loans must be submitted to a Department of Housing and Urban Development (HUD) approved mortgagee.